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Japan Report

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JPRS-JAR-84-005

21 March 1984

JAPAN REPORT

INDUSTRIAL FINANCE

Tokyo KONGO NO NOZOMASHII SANGYOKINYU NO ARIKATA NI NI KANSURU HOKOLU [REPORT ON DESIRABLE INDUSTRIAL FINANCING IN THE FUTURE] in Japanese 29 Sep 82 pp 1-79

[Report published by Subcommittee on Industrial Finance Problems of the Central Division Committee, Council on Industrial Structure]

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ECONOMIC

REPORT ON DESIRABLE INDUSTRIAL FINANCING IN THE FUTURE

Introduction

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[Text] Introduction

For our country to achieve stabilized growth while performing its role as an economic superpower in international economic society in the future, it is necessary to try to achieve a health industrial development. For that purpose it is essential to secure a steady growth of industrial funds

When we review the environment surrounding industrial financing in our country, we discover first of all that the economy has shifted to a stabilized growth since the first oil crisis, while the amount of government bonds issued has increased, the internationalization of financing has made progress, and moves indicating progress in the liberalization of financing centered on money rates have become marked. Also, progress has been made in the diversification of sources of funds on the part of enterprises.

Such changes in the environment surrounding industrial financing are expected to continue in the future, too, and it is anticipated that this will have a considerable impact on industrial financing in the future.

On the basis of these changes in the environment surrounding industrial financing, this committee was established in October 1981 under the General Division Committee of the Council on Industrial Structure in order to seek a maximum vitality of our industry, and to examine desirable industrial financing in the future with a view to facilitating its health development.

The committee carried out surveys of the actual conditions of overseas industrial financing and it surveyed enterprises by questionnaire. Using these as references, the committee has deliberated for about a year, since October 1981, on (1) trends in raising industrial funds in the future; (2) the progress in the liberalization of financing, and the impact on industrial financing from changes in the surrounding environment such as an increase in the amount of government bonds issued; and (3) desirable financing for smoothly raising funds for industry, and a desirable capital market.

This report summarizes the achievements of the committee's deliberations. It will present various proposals for desirable industrial financing in the future. And it will endeavor to point out directions for further scrutiny in the future. We strongly call on the various concerned quarters to implement the various proposals we have presented as soon as possible. We strongly urge that the matters to be scrutinized be examined expeditiously.

List of Members of the Subcommittee on the Industrial Finance Problems of the General Division Committee, the Council on Industrial Structure (in [Japanese] alphabetical order)

Chairman: Kiyoshi Tsuchiya, chairman of the Board of Directors, General Policy Research Association

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	Yoshihisa Yokoyama	Vice President of Nissan Motors

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[Text] Chapter 1. Characteristics of Our Industrial Financing in the Past

Section 1. Industrial Financing Up to the High Growth Rate Period

1. Investment Behavior of Enterprises and the Quality of Financing

(1) Vigorous Will for Investment

The postwar economy of our country achieved rapid rehabilitation from the devastation wrought by the war, and thereafter registered a development by leaps and bounds without precedent in the world. What served as the motive power for such economic development was the growth of plant and equipment investment in the civilian sector at a rate exceeding 10 percent per year. During the high growth rate period, a national consensus existed on catching up with the advanced nations and on a high rate of growth. Therefore, in order to try to maintain and expand their market share in view of the anticipated increase in demand based on the expectation that a high rate of growth would continue in the future and in order to introduce innovative technology from Europe and America, enterprises actively carried out plant and equipment investment.

(2) High-Level Dependence on External Funds and Fund Raising Centered on Loans

As enterprises actively carried out plant and equipment investment, the demand for funds for plant and equipment expanded and at the same time the demand for operating funds also increased due to increased sales under the high rate of economic growth. On the other hand, as the amount of internal funds of enterprises was far below the demand for such funds, enterprises shifted to a high level of dependence on external funds.

In terms of the shift in the dependence of enterprises to outside funds during the 1960-1970 period, it was at the 10-20 percent level in the United States, and at the 30-40 percent level in Britain and West Germany. In comparison, it was at a high 50-60 percent level in our country.

Next, when we survey the means of raising such outside funds by separating them into loans, stocks, and negotiable securities called deventures, we note that it is characteristic that the dependence on loans is extremely high. When we compare the ratio of loans to total funds raised, including internal funds, by country, it is 5-22 percent in the United States, 7-12 percent in Britain, and it is at the 30-percent level in West Germany, with a comparatively high ratio of loans. In comparison, it is a high 40-50 percent in our country.

(3) Low Own Capital Ratio

Because enterprises raised increasing funds from outside through loans, the ratio of enterprises' own capital continued to drop throughout the high growth rate period. The general declining trend of the own capital ratio was also seen in the United States and West Germany, but our country was noted for its low level.

In addition, a comparison of the ratio of enterprises' own capital in the manufacturing industry in 1970 shows that it was 53.8 percent in the United States and 35.6 percent in West Germany, while it remained at a low 21.5 percent level in our country.

2. Financing Structure

(1) Money Flow Structure

The characteristic of the money flow structure during the high growth rate period was that the large shortage of funds in the enterprise sector was financed by the fund surplus in the individual sector. On the part of the public sector, the issuance of government bonds by the central government continued after 1965, but the shortage of funds was not very large. Its keynote was generally a condition of balance.

The large fund surplus in the individual sector was supported by the high savings of individuals. A comparison of the savings rate of individuals by country shows that in 1970 it was 8.2 percent in the United States and 6.6 percent in Britain. Against them, it was 18.2 percent in our country and 17.9 percent in West Germany--both at a high level.

Next, in the changing conditions of the management of individual savings by financial assets, fixed-term deposits had the highest ratio. And this ratio continued to rise year after year. On the other hand, the ratios of cash currency and float deposits showed a declining trend. Also, in terms of the ratios of negotiable securities, the ratio of public bonds and debentures rose slightly, but because the ratio of stocks declined markedly, as a whole there was a gradual decline.

In terms of the composite ratio of the financial assets of individuals in 1970 in each country, it was high in the United States, particularly the ratio of stocks, and the ratio of insurance and pensions was also relatively high.

In our country the ratio of time deposits was high. West Germany showed a generally similar trend to ours, but the ratio of cash and currency deposits was slightly lower than in our country.

(2) Superiority of Indirect Financing

As was stated earlier, the money flow structure during the high growth rate period was characterized by the fact that the shortage of funds was financed by the fund surplus in the individual sector. Financial intermediation between

the corporate sector and the individual sector was effected mainly through indirect financing such as borrowing from banks, deposits and savings, and the ratio of direct financing such as stocks and debentures remained at a low level. Viewed from the standpoint of industrial fund raising, the ratio of borrowing was extremely high. The conditions of the increase-decrease in the supply of industrial funds showed that while borrowing accounted for more than 90 percent throughout the 1965-1975 period, stocks covered less than 6 percent and debentures slightly over 3 percent--both at a low level.

In the background of such a preponderance of indirect financing are: (1) the banking system and the postal saving system had become entrenched in the lives of the people since the Meiji era, and individuals preferred the saving form called deposits and savings; (2) since enterprises could declare an interest payment and discount it as a loss, borrowing was more favorable than stocks in terms of the cost of raising funds; (3) because of inadequate capital accumulation, enterprises had to depend largely on financial institutions for the absorption of debentures, too; (4) compared to the effective interest rate in the circulation market, the yield rate of bonds was at a low level, so during the tight financial period the issuance of debentures faced restrictons.

(3) Regulation of Interest Rates

In our country, after 1947, in accordance with the "Temporary Money Rates Adjustment Law," the maximum limit of interest on deposits and savings and loans was regulated. Also, there was an interest rate system regulating the conditions for the issuance of debentures.

The "Temporary Money Rates Adjustment Law" was reportedly enacted to replace the agreement on interest rates between banks which had been in effect until that time; the "Law Relating to Prohibition of Private Monopoly and Maintenance of Fair Trade" was imposed during the severe inflationary period in the postwar era. The adjustment law has since played a central role in regulating interest rates in our country.

In the background of the setting of interest rates at a low level with such regulations was said to be the demand for strengthening the international competitiveness of our industry, for the protection and nurturing of new financial institutions, and also for curtailing as much as possible the expenditures for payment of interest on government bonds with the resumption of the issuance of government bonds after 1965.

(4) Establishment of Professional Financial Institutions

In response to the varied need for funds by enterprises the systematic classification of financial institutions by type in various specialized fields was instituted in the postwar period.

In other words, in short-term financing, city banks and local banks with their main financial resources in deposits have played the central role. Also, ordinary banks have in practice provided intermediate financing by renewing short-term financing.

On the other hand, in intermediate- and long-term financing, the central role has been played by long-term credit banks with their main financial resources in bank debentures and trust banks with their main financial resources in loans in trust.

Also, in the fields of foreign exchange and trade financing, foreign exchange specialist banks and city banks have played the central role.

In the fields of medium and small enterprise financing, mutual loan and savings banks, credit associations, and credit cooperatives have played a large role by taking advantage of their regional affiliations.

(5) Foreign Exchange and Other Control

Until about 1970, in accordance with the "Foreign Exchange Control Law" and the "Law Concerning Foreign Investment," in our country the participation of residents in foreign money and capital markets, the participation of non-residents in our money and capital market, and other areas of internationalization were severely restricted. Such shutting off of our money and capital market from overseas markets was designed as a countermeasure to deficits in international payments and as a measure to prevent the moves of market-distributing international short-term funds. At the same time, it also played the role of maintaining the characteristics of our financial structure, such as the regulated money interest system.

3. Policy Financing

Policy financing was aimed at supplying funds to those fields with strong needs in terms of policy against the brisk demand of the civilian sector for funds. Thus it was effective in quantitatively and qualitatively supplementing civilian financing, in stimulating the activity of the civilian sector, and also in realizing policy goals in accordance with the tasks of industrial policy at the time, as will be described later.

Furthermore, in the background of the smooth management of policy financing it can be pointed out that there existed funds based on the credibility of the government, such as postal savings, national annuities and welfare annuities; on the other hand, due to the fact that government bonds were not issued for a considerable period after the war, it was possible to manage such funds stably through policy financing institutions.

The roles played by postwar policy financing can be classified as follows by periods:

(1) Economic Rehabilitation Period (1945-1950)

The tasks of industrial policy during this period were the strengthening of key industries by the priority production system and other systems through the Reconstruction Finance Bank, the promotion of trade, the promotion of industrial rationalization, and the promotion of medium and small enterprises.

During this period, the Japan Export Bank (redesignated the Japan Export-Import Bank in 1952) was established in 1950 and the Japan Development Bank was established in 1951.

(2) Period of the Establishment of the Industrial Base for Economic Self-Sufficiency (1950-1960)

The main role of policy financing was to finance the key industries for the purpose of nurturing the heavy and chemical industries, and for industrial rationalization, regional development, and the promotion of small and medium enterprises. During this period, the Small Business Finance Corporation was established in 1953, the Hokkaido and Tohoku Development Corporation was established in 1956, and the Small Business Credit Insurance Corporation was established in 1958.

(3) High Growth Rate Period (1960-1970)

The main tasks of policy financing during this period were the strengthening of international competitiveness and the consolidation of the industrial system in response to trade liberalization, the enhancement of the living environment through such means as the policy on pollution, and the promotion of medium and small enterprises.

4. Evaluation of Industrial Financing Up to the High Growth Rate Period

From the standpoint of the national economy as a whole, throughout the postwar rehabilitation and high growth rate periods- indirect financing, which played the main role in industrial financing, may be said to have played the role of financing the enterprise sector, which constantly had a shortage of funds, through the efficient collection of small individual savings. In the background of the fact that it was possible for financial institutions to satisfy the demands of sound banking and at the same time to actively extend loans to enterprises with a high level of dependence on external funds and with a fragile financial structure lies the fact that loan risk was alleviated through the securing of collateral and that relations of mutual trust were formed between enterprises and banks due to the existence of the main banks. Also, the main banks made it possible for enterprises to gain a long-term stable base for enterprise management, and thus enterprises gained corresponding advantages.

As to the regulation of money rates, its effect was reportedly considerably reduced regarding effective interest rates in the midst of the chronic shortage of funds on the part of enterprises. But it had the effect of making available a supply of low-interest funds to enterprises. Also, in the face of the artificial low interest rate, at times it was impossible to adjust the demand for and supply of funds through changes in the money rate, so credit allocation was carried out. But as can be seen in the adjustment of debenture flotation and the granting of credit by the Bank of Japan, priority was given to supplying funds to export industries and the key industries.

Section 2. Shift to Stabilized Economic Growth and Changes in Industrial Financing

1. Changes in the Behavior of Enterprises

(1) Changes in Investment Behavior and Demand for Funds

During the shift to a stabilized growth of our economy beginning with the first oil crisis, in terms of the platn and equipment investment of enterprises, investment for capacity expansion was lackluster as a whole. On the other hand, investment in response to the new environmental changes, such as that related to energy and technological development, was increased. Also, as to electric power, the amount of investment was increased mainly in nuclear power generation in order to accelerate the development of nonpetroleum power sources while plant and equipment investment of all other industries stagnated, so the ratio of such investment to that of industry as a whole was raised.

In the face of the sudden drop in demand beginning with the first oil crisis, enterprises curtailed plant and equipment investment and responded by curtailing inventory, employment adjustment and other means of reduced management. Thus, the demand of enterprises for funds diminished as a whole, and their dependence on external funds also decreased in comparison with the high growth rate period.

(2) Trend Toward Emphasis on Profits in Current Financial Phase

With the shift to stabilized economic growth, an increase in sales such as that during the high growth rate period cannot be hoped for. Thus enterprises are placing more emphasis on profits and endeavoring to bring out reduced management by cutting costs.

Such an endeavor can be seen also in respect to financial balance. Since 1975, with the heightened preference for interest rate, progress has been made in the diversification of sources of funds and management centered around large enterprises.

In respect of fund raising, not only borrowing from banks but also fund raising through stocks and debentures has increased. Moreover, it is noteworthy that fund raising through foreign investment has also increased. In regard to stocks, in place of issues to shareholders at par, issues at the value of public subscription has become the main type. As to debentures, in addition to ordinary debentures, the issuance of convertible bonds has showed an increase. Recently, debentures with preemptive subscription rights have also been issued. Fund raising through foreign bonds has increased through the introduction of impact loans and the issuance of foreign bonds.

In respect to fund management, not only bank deposits but also the repurchase agreements transaction market and the certificate of deposit (transferrable time deposit certificates) market have grown. Recently even treasury bills (short-term government bonds) have been included in management. As a whole the orientation of management toward high interest rates has been intensified.

2. Changes in Financing Structure

(1) Changes in the Money Flow Structure

In the enterprise sector, which once had the largest shortage of funds, the extent of the shortage decreased during the period of transition to stable economic growth. On the other hand, the shortage of funds in the public sector has expanded since 1975. When the excess or shortage of funds by sector is viewed in terms of GNP ratio, the extent of the shortage of funds in the enterprise sector has increased again since 1979 due to the recovery in plant and equipment investment, but it is still at a low level compared to that during the high growth rate period. In the public sector, the shortage of funds of the central government has been reduced since 1976, but it still surpasses that in the enterprise sector. As to the private sector, it is still the sector with the largest surplus of funds. The extent of the surplus decreased in 1979, but it expanded again somewhat in 1980. Also, as to the overseas sector, as exports showed high growth, it lacked funds in 1977 and 1978. Then, due to the deteriorating conditions for trade after the second oil crisis, the sector showed a surplus of funds in 1979 and 1980.

What draws special attention regarding the changes in the money flow structure is the increase in the issuance of government bonds. The postwar issuance of government bonds was resumed in 1965, and it assumed full scale in 1975. The reason for this was that government bonds were issued in increased amounts in response to the shortage of revenue due to the recession beginning with the first oil crisis and to the increased expenditures for the expansion of public works designed to stimulate the economy.

(2) Progress in the Liberalization of Money Rates

A. Expansion of the Short-Term Money Market

The short-term money market in our country was developed around the call market. In May 1971 a bill discount market was inaugurated as a fund loan market. On the other hand, the call market was reduced to a market for under a month, short-term loans.

Participants either as offerers or takers in such a call money market or a bill discount market are limited to financial institutions. But it is noteworthy that in recent years, new short-term money markets such as the repurchase agreements transaction market, in which enterprises and local public organizations as well as financial institutions can participate, have expanded.

The repurchase agreements transaction market is a market for conditional buying and selling of bonds which has expanded rapidly since the 1970's. During the 1965-1970 period, consignment sale and purchase by securities companies as the broker between clients was the main form. In the late 1970's, direct sale and purchase by directly participating securities companies was added, and the market was further expanded. In the background of the expanded repurchase agreements transaction market since 1975 are the intensified need

for inventory financing of securities companies, with the expanded circulation market caused by the increased government bond issuance and also the rapid intensification of interest rate preference for fund management on the part of enterprises.

Also, in May 1979 the issuance of certificates of deposit began. Behind this was the situation that because the holding of government bonds by financial institutions had increased, and, the short-term fund management of enterprises had shifted from bank deposits to the repurchase agreements transaction market, there was intensified recognition of the need for fund raising in response to the deteriorating position of financial institutions.

Along with the call market and the bill discount market, the repurchase agreements transaction market and the certificate of deposit market are free interest rate markets in which money interest is not regulated. Measures have been adopted to make money interest arbitration between markets more active. Thus, while at first the utilization of the repurchase agreements transaction market by city banks was strictly regulated, now it has been gradually relaxed. And the participation of securities companies in the call market has been recognized as well. Also, the liberalization of call loan quotations and of bill resales has been carried out gradually since June 1978. Thus, moves for the liberalization of money interest in short-term money markets have been noteworthy. Furthermore, since 1981 the sale of short-term government securities in the market money interest by the Bank of Japan has been carried out.

B. Liberalization of Conditions for Public and Corporate Bond Issuance

As to the underwriting of government bonds, an underwriting syndicate primarily composed of city banks has played a central role in underwriting since 1965. The bulk of government bonds thus underwritten by financial institutions in the 1965-1975 period was absorbed by the Bank of Japan through its buying operation executed to provide a sufficient money supply for economic growth. However, as the amount of government bonds issued every year since 1975 has been on a scale far surpassing the money supplied for economic growth by the Bank of Japan, the amount of bonds not absorbed by the Bank of Japan and instead held by financial institutions has increased year after year. As a result, the demand for the liquidity of government bonds as position guidance for city banks has intensified. Thus, since April 1977 the previously enforced selling deadline has been gradually relaxed, and the public and corporate bond markets have expanded.

Following the expansion of the public and corporate bond markets, in the terms for government bond issues, too, importance began to be attached to the real situation of the market. Also, since June 1978 the issuance of intermediate interest-bearing government bonds was started in the form of public subscription and bidding.

(3) Progress in the Internationalization of Financing

With the expansion of the economic scale in our country, the internationalization of enterprise activity, and the improved evaluation of the yen, the internationalization of financing has made progress. (note)

(Note) Current Condition of Yen-Denominated Ratio

The yen-denominated ratio of our exports has gradually increased with the strengthening of the international competitiveness of our exporting enterprises. It was estimated to have surpassed the 30-percent level in 1981. However, in imports, (1) the yen-denominated ratio was large in such import items as international commodities with a large weight and petroleum, and (2) the usance system in trade financing was fixed, the yen-denominated ratio appears to be chaning at a low level of 3-4 percent. On the other hand, in West Germany, for instance, the DM-denominated ratio is said to be about 80 percent in exports and 40 percent in imports, respectively.

A. Current Condition of the Internationalization of Financing

In terms of the progress in internationalization, foreign bond issues by Japanese enterprises and intermediate- and long-term loans for overseas have increased in terms of the advance of Japanese residents into foreign financial and capital markets. Also, the investment in foreign securities by Japanese residents has increased.

In terms of the advance of nonresidents into the domestic financial and capital market, there has been an increase in investment in Japanese securities by nonresidents, and asset management through nonresident yen accounts, certificates of deposit, and repurchase agreement transactions. Also, yen-denominated foreign bond issues have increased.

Also, in regard to foreign currency transactions in Japan, the scale of the Tokyo dollar call market, and the scale of foreign currency deposits and borrowings have also increased.

In regard to the internationalization of the yen, although its function as a currency of settlement is low compared to the currencies of advanced nations, its function as a reserve currency has gradually expanded.

B. Liberalization of Foreign Exchange Control

As a general summarization of the liberalization of foreign exchange control which has been in progress since the late 1970's, the revision of the Foreign Exchange and Foreign Trade Control Law (hereafter referred to as "Foreign Exchange Law") began to be enforced in December 1980. As a result, external transactions were shifted from "principled prohibition" to "principled liberation." (note)

(Note) "The Foreign Exchange and Foreign Trade Control Law" was enacted in 1949. It was almost completely revised in 1979, and was put into effect on 1 December 1980. In accordance with this revision, overseas transactions carried out on the basis of "prohibition as a principle and liberalization as

an exception" was changed to "liberalization as a principle." Thus, measures were taken aimed at liberalizing impact loans and at shifting from the approval system to the advance reporting system for borrowings between enterprises, loans between enterprises, foreign bond issues, and investment in foreign bonds.

As part of the changes in terms of industrial financing, impact loans were completely liberalized on the fund raising side, and foreign bond issues were changed from the approval system to the advance reporting system. Also, on the management side, restrictions on the amount of foreign currency deposits were abolished. With such liberalization in foreign exchange control, internationalization in fund raising and in management on the part of enterprises was promoted. On the other hand, with the progress in the opening of the financial and capital market in our country, it is more susceptible to the impact of overseas financial and capital markets. Also, the increase in free money rate foreign currency deposits and impact loans have acted as factors accelerating the liberalization of domestic deposits and the money rates of loans.

(4) Homogenization and Diversification of the Operations of Financial Institutions

While the demand for funds by enterprises became lackluster beginning in 1975, some operations of various financial institutions overlapped in dealing with the varied fund needs of enterprises.

In the area of long-term funds, in addition to long-term credit banks and trust banks which played central roles in the past, city banks have increased the ratio of their long-term loans.

In the area of international financing led by trade financing, the advance of city banks and long-term credit banks other than foreign exchange specialist banks has become noteworthy.

Also, in the field of small and medium enterprise financing, the number of municipal bank loans has increased. In 1977 and 1978 the ratio of national banks in the loan balance for small and medium enterprises increased. However, as the demand for funds by large enterprises has risen since 1979, the ratio of national banks has decreased somewhat. This shows that national banks loans to small and medium enterprises are affected by the financial situation.

Thus, the operations of financial institutions tend to become homogenized and diversified. This is interpreted to mean that while financial institutions are effectively using their expertise, they are progressively diversifying their services.

(5) Separation Between Banks and Securities

Following the model of the 1933 U.S. Banking Act, in the postwar period our country has prohibited such financial institutions as banks from engaging in securities business. (Section 1, Article 65, Securities and Exchange Law) As a result, financial institutions are prohibited from underwriting debentures, and instead only securities companies are allowed to underwrite them. The separation of financial institutions from the dangeorus underwriting of securities is allegedly an effort to protect depositors and to nurture securities companies. For this purpose, the underwriting of public bonds is exempted from the provisions prohibiting banks from engaging in securities business. (Section 2, Article 65, Securities and Exchange Law)

Under the revised Bank Law and the revised Securities and Exchange Law, the handling of public bonds was reviewed in terms of the legal aspect in 1981. (Note 1)

> (Note 1) Specifically, under the revised Bank Law, the handling of securities business in public bonds by banks was provided for by law. The underwriting of the balance of public bonds not intended for sale and the handling of public bond floating in conjunction with this was provided for as an incidental operation of banks.

Securities business related to public bonds other than those dealing with an unspecified number of customers had to be approved in accordance with the Bank Law. Also, in the Securities and Exchagne Law, with the exception of the underwriting of the balance of public bonds, approval was required.

Furthermore, with the revision of the Foreign Exchange Law in December 1980, overseas certificates of deposit and commercial paper (note 2) were designated "securities." But the revision of the Bank Law and the Securities and Exchange Law indicated that these would be handled by both the financial and securities industries. (note 3)

> (Note 2) Commercial paper is an unsecured, single-name promissory note issued in the United States by first-rate enterprises for raising short-term funds. The term is less than 9 months.

> (Note 3) Regarding overseas commercial papers, the Ministry of Finance has issued the following rules (31 March 1982).

> A. For the time being, commercial paper is limited to A_1 +, A_1, or P_1 enterprises.

> B. The introduction of commercial paper issued by Japanese corporations in the United States will be withheld for the time being. After taking into consideration the situation following the introduction of general overseas commercial paper in the future, the handling of such commercial paper will be continuously examined by agencies concerned.

C. Half a year to a year after the introduction, the limit will be extended to A_2 and P_2.

3. Changes in Policy Financing

(1) In the transition from a high growth rate to a stabilized growth of our economy, policy financing has changed in conjunction with the listing of desirable policy tasks and industrial policy.

To put it another way, in the 1955-1965 period when our national economy entered a high growth rate period led mainly by plant and equipment investment in the civilian sector, priority was placed on the nurturing of such basic industries as iron and steel, petrochemicals, and automobiles. But each time a certain industry was judged to have reached the goal of nurturing, it was removed from the list for industrial nurturing. Also, in regard to electric power, while in general it was made the object of financing in the 1955-1965 period, at present steps are being taken to limit financing to only some fields of electric power, such as atomic power generation.

Also, of all the financial investment and financing, the percentage devoted to the basic industries has rapidly declined since the 1955-1965 period. On the other hand, investment and financing for the industrial base that supports the high growth rate, such as roads, transportation, and communications have shown a steady increase. Furthermore, since the 1960's investment and financing for fields that contribute to the stabilization and improvement of national life, such as small and medium enterprises, and the adjustment of the living environment have shown immense growth.

(2) On the other hand, changes have also been noted in the structure of financial sources for policy financing. With the high growth rate in the background, postal savings, welfare annuities, and national annuities have registered a steady growth. The weight of the funds of the Trust Fund Bureau increased from 52.3 percent in 1955 to 84.4 percent in 1975.

(3) Also, in response to such policy tasks as the consolidation of the industrial base and the living base, and the energy countermeasures since the 1955-65 period, various corporations and agencies have been established. Those related to industry are, for instance, the Hokkaido Development Corporation (established in 1956, and reorganized as the Hokkaido and Tohoku Development Corporation in 1957) and the Coal Producing Region Development Corporation (established in 1957, and reorganized as the Regional Development Adjustment Corporation in 1974) in the regional development field; the Metal Mining Agency of Japan (established in 1963) and the Petroleum Corporation (established in 1967) in the resources and energy field; and three in the medium and small business-related field, the Small Business Credit Insurance Corporation (established in 1958), Medium and Small Enterprises Investment Nurturing Companies (established in 1963), and the Small Business Promotion Corporation (established in 1967, reorganized as the Small Business Corporation in 1980. Furthermore, the Public Nuisance Prevention Corporation (established in 1965) and the Okinawa Development Finance Corporation (established in

1972) were established. Thus, in the 1965-1975 period, various guidance financing institutions were consolidated.

(4) Furthermore, in the period stabilized economic growth since the first oil crisis, the priority of guidance financing was shifted to resources and energy-related, medium and small business-related, and technology-related fields. In 1978 a credit fund for specific depressed industries was established in response to new needs so as to actively facilitate industrial adjustment.

Chapter 2. Economic and Financial Environment Surrounding Future Industrial Financing

Section 1. Future Trends in Demand for Industrial Funds

1. Forecast for Plant and Equipment Funds

As the stabilized economic growth is expected to continue in the future, it is hardly anticipated that there will be an exploding expansion of plant and equipment funds based on the premise of a quantitative expansion of the economy. Nevertheless, the factors for investment inducement in the intermediate and long term are considered as continuing to be strong. Thus, because of the sudden, severe rise in oil prices first and the accompanying sudden, violent changes in the energy price system, our national economy faces the need for implementing broad-range investment in order to adapt to the new price system. In the future it is expected that we will carry out investment for energy conservation, for alternative energies, and for energy-related technological development. Moreover, the need for promoting investment in energy resources appears to be strong.

Second, the effects of technological innovations in the semiconductor and information-related fields are indeed extremely strong. In the future, for enterprises to survive, they face the urgent task of introducing the accomplishments of these technological innovations into their businesses. Therefore, it is expected that the need for investment in office automation and industrial robots and other energy-conserving fields will continue to be strong. Furthermore, in such high-technology fields as integrated circuits and biotechnology, too, the need for investment in technological development necessary for strengthening international competitiveness appears to be strong.

If we assume such intermediate- and long-term prospects for plant and equipment investment, the scale of demand for plant and equipment funds will rise--although not, perhaps, at the same level as during the high growth rate period.

2. Forecast for Operating Funds

Although it is difficult to make a detailed forecast of the scale of demand for operating funds in the intermediate and long term, an increase in funds following the expansion of inventory and trade receivables in proportion to the expanded scale of production and sales is expected.

Moreover, the increase in investment and financing funds required for overseas investment is expected to expand in the future, and an increase in operating capital due to the shifts in industrial structure and in operating funds related to technological development is expected. Thus, it is anticipated that the scale of demand for operating funds as a whole will tend to expand. At the same time, qualitative changes will also take place.

3. Forecast for Entire Demand for Industrial Funds

As we have observed, it is expected that demand for plant and equipment funds and for operating funds in the industrial sector will increase. As a result, it is judged that the scale of demand for industrial funds embracing both these needs will increase in the intermediate and long term. Of course, the rate of increase is hardly expected to be as large as during the high growth rate period, but in some respects it will be considerable.

From the viewpoint of fund demand and supply, it is expected that the scale of demand for funds on the part of enterprises will keep increasing, as has been observed, while the extent of fund deficit in the public sector will not be drastically reduced, and in the supply sector no large change is forecast in the rate of individual savings. Therefore, although dependent on the situation resulting from the internationalization of financing, industrial fund supply and demand is expected to move in a comparatively tight range.

Section 2. Liberalization of Financing and Its Anticipated Impact

1. Background of the Liberalization of Financing

Changes in the financing environment, including an increase in the amount of government bonds issued, the progress achieved in the liberalization of financing, and the heightening of interest preference, have accelerated the liberalization of money interest. The liberalization of money interest rate raises the possibility of the relaxation or review not only of the regulations on interest rate, but also of various controls that might impede the management efficiency of financial institutions and various regulations concerning the finance capital market as a whole. In this sense it is appropriate to examine this broadly as a problem of the liberalization of financing.

As the background for the recent progress achieved in the liberalization of financing centered on the liberalization of interest rate. the following can be pointed out:

(1) Accumulation of Financial Assets and the Heightening of Interest Rate Preference

A review of the fund raising in the domestic nonfinancial sector and the trends of the management of financial assets reveals that since the economy entered a period of stabilized growth, in the enterprise sector the level of investment by enterprises has relatively decreased, and self-financing through reduced management efforts has been strengthened. Consequently, in terms of fund raising the level of demand for external funds has decreased

compared to that during the high growth rate period. For this reason, the trend toward placing emphasis on the qualitative aspect of funds, that is, the selection of the means of fund raising most advantageous in terms of interest rate, has been intensified. Also, in the management phase, in the background of the increase in the surplus funds on hand and the diversification of management objectives, the posture of emphasizing yield has been further strengthened and the management weight of free interest rate instruments has risen.

In the meantime, in the private sector the accumulation of financial assets has progressed, while various new finance instruments, such as a new government bond investment trust, have been developed. Because of this, it has become possible to manage assets with instruments with higher yield than in the past, and the diversification of individual financial assets has progressed.

Amid such progress in the diversification of financial assets, the consciousness of preference for interest rate which has become marked among individuals and enterprises is expected to stimulate the acceleration of the liberalization of interest rate in the future.

(2) Request for More Flexible Issue Conditions With the Increase in the Amount of Government Bond Issuance in the Background

With the increase in the amount of government bonds issued since 1975, the volume of already issued government bonds that were not absorbed by the operations of the Bank of Japan and remained in the open market increaed, and the free money market through free sale and purchase transactions in the circulation of public bonds and debentures expanded and developed. On the other hand, in the investment market, the regulated interest rate system was maintained which requires that (1) the interest rate of long-term assets should always be higher than that of short-term assets and (2) a lower interest rate should be applied to newly issued entities with a higher credit rating regardless of the length of term. In the past, frequently there was a discrepancy between the issuing conditions of government bonds and the circulation yield. As a result, difficulty in absorbing the newly issued bonds in the investment market and capital loss on the part of financial institutions participating in the un-erwriting syndicates occurred. Thus, greater flexibility in the issuing conditions in response to the actual circumstances in the circulation market was called for. In response, the issuing conditions were recently made more flexible to a considerable extent.

Also, on the occasion of the revision of the issuing conditions for public bonds and debentures in March 1979, the subscriber's yield on government bonds with long-term interest (10 years) for the first time surpassed the subscriber's yield on bank debentures with interest (5 years). Thus a "debenture-government bonds reverse phenomenon" occurred. The appropriate relationship was restored temporarily thereafter, but the reverse conditions remain to date.

If government bonds continue to be issued in large amounts, it is expected that the call for greater flexibility in issuing conditions will be heightened, and that ultimately a review of the regulated money rate system in the investment market will be demanded.

(3) Emergence of New Financial and Other Instruments

Because, as in the past, for general petty assets managers there existed no manageable objects of short-term investment except deposits and savings, interest was set at a low level. However, in recent years, new types of investment trusts involving government bonds with medium-term interest issued through public subscription and bidding and government bonds as objects of management, free interest rate instruments and new financial instruments which have relatively higher interest, which can be used for petty assets management, have emerged to compete with existing financial instruments such as deposits and savings.

Also, (1) government bonds with long-term interest which have been issued increasingly since 1975 are expected to become short-term assets as the term of their repayment approaches; (2) beginning in 1985 the issuance of refunding bonds will be carried out in earnest, and the total amount of government bonds issued together with new financial resource bonds will be increased, and this is expected to act as pressure on the market; (3) such conditions are anticipated to accelerate the development of new financial instruments together with the development of data processing and of communications technology. For these reasons the diversification of financial assets centered on new financial instruments is expected to progress, and therefore pressure for the liberalization of deposit and savings interest will also be intensified.

(4) Progress in the Internationalization of Financing

Progress made in the internationalization of financing will have the following impact on the liberalization of financing.

A. Impact on Domestic Yen Loans by the Liberalization of Financing

Impact loans with unrestricted interest rates have been liberalized and it has become possible for enterprises (note) to flexibly seek sources of fund raising at home and abroad by comparing the real interest on impact loans through yen conversion under a swap agreement with the interest on domestic yen loans. For this reason, such loans are expected to have an impact on the formula for setting interest rates on domestic yen loans based on the prime rate, as in the past.

(Note) This refers to enterprises that have introduced impact loans from overseas gaining yen (yen conversion) by selling foreign currency in the foreign exchange market, and at the same time signing contracts in the futures market for selling yen and buying foreign currency. By doing this, enterprises can possibly avoid the exchange risk in repaying impact loans.

B. Impact on the Domestic Industrial Bond Investment Market by the Issuance of Yen-Denominated Foreign Bonds

Because in 1977 restrictions on the number of names and amounts in the issuance of yen-denominated foreign bonds in our market were relaxed, the issuance of yen-denominated foreign bonds, reflecting more fully the real market situation has increased. It is anticipated that such a move will have an impact

on the liberalization of issuing conditions in the domestic industrial bond investment market.

C. Impact of Foreign Currency-Denominated Financial Instruments Such As Foreign Currency Deposits on Deposit and Savings Interest Rates

Since foreign currency deposit interest rates are linked to Euro-dollar interest rates, when foreign currency deposits become more favorable than domestic yen deposits, institutional investors and individuals shift to foreign currency-denominated instruments. For this reason it is expected that pressure will be exerted to make more flexible the interest rates of deposits and savings and to develop new instruments that counter foreign currency-denominated instruments.

As we have seen, with the internationalization of financing through foreign currency deposits with free interest rates and the liberalization of impact loans, pressure for relaxation and greater flexibility in the regulated money rate system is being intensified. Moreover, with the liberalization of exchange controls in the background, the possibility of changes in the interest rates overseas having a direct impact on the domestic financial market has become strong. From such a standpoint, it is expected in the future that the internationalization of financing will act as a large factor for accelerating the move toward greater flexibility in interest rates.

(5) On-line System of Financial Operation

Together with the relaxation of regulations on the uses of communications circuits, the progress in information processing and communications technology has reached a stage whereby the renovation of information services, including financial operations, is demanded. It is expected in the future that in the financial area--not only in the bank sector, but also in the nonbank sectors--the diversification of financial services and the efficiency of management will be stepped up through the active utilization of communications circuits. Such a move will make it possible to appropriately respond to the needs of industrial circles and to contribute immensely to the acceleration of system readjustment to deal with the liberalization of financing.

2. Anticipated Impact of the Liberalization of Financing on the Industrial World

The impact of progress in the liberalization of financing in the future and, in the formation of the Treasury Bill market, which is an open market, the liberalization of issuing conditions of government and other bonds and of deposit interest rates and loan interest rates is expected to be as follows:

(1) Impact on Borrowing Interest Rate Level

A. Impact on the Interest Rate Level

In terms of the impact on the interest rate level, if we assume that the condition of fund supply and demand is constant, when the liberalization of

of financing progresses, in the area of fund raising on the part of financial institutions, the ratio of free interest rates among the types of financial resources is expected to increase. As a result, interest rates will rise and thus there is the possibility that in the short term borrowing costs of enterprises will rise. However, because efficiency in the management of financial institutions is expected to progress further due to the liberalization of interest rates, and also because the diversification of fund raising on the part of enterprises is espected to progress further, in the long term it can be anticipated that in the industrial sector as a whole the fund raising costs of enterprises will not rise markedly.

However, because in medium and small enterprises with a fragile management base and in structurally depressed industries the credibility of enterprises will reflect on borrowing interest rates more than before, fund raising costs are expected to rise, and the differences between enterprises and between industries may increase. Also, there is fear that a steady supply of funds will be obstructed for those fields that are necessary in the intermediate and long term and from the standpoint of industrial policy and the national economy.

Furthermore, under the system of regulated interest rates used so far, a discrepancy has been observed between the nominal interest rate and the real interest rate in the borrowing by enterprises. Because such a discrepancy makes the issue more difficult for individual enterprises and also entails additional costs, some observers point out that in this respect it impairs the efficiency of fund distribution. The additional costs required for the adjustment of the real interest rate will not necessarily be needed if interest rates are liberalized, and also the aspirations of enterprises for efficient fund management will be intensified. For this reason, it is possible that the range of discrepancy between the nominal interest rate and the real interest rate will decrease.

B. Impact on the Range of Changes in Interest Rates

Interest rates in the short-term financial market have already been partially liberalized. As to the circulation yields of various types of bonds, including government bonds, interest rate arbitrarion has become active with the background of liberalization of interest rates and financing in addition to the expansion of transaction scales and of market participants. And interest rates now change with comparative flexibility.

The changes are relatively small in deposit interest rates and short-term loan interest rates, which are currently regulated. But if these interest rates are liberalized more and more in the future, short-term loan interest rates will be established in a form corresponding to the changes in fund raising costs, and interest rates on borrowing by enterprises are expected to change in a wide range in response to the financial situation.

(2) Impact on Relations Between Enterprises and Financial Institutions

With the liberalization of financing, competition among financial institutions will be accelerated in regard to interest rates, so it will become necessary

for financial institutions to aim at further management efficiency in order to secure profits.

Also, it is estimated that each financial institution will unfold its management strategy with utmost creativity.

In this situation: (1) relations between enterprises and financial institutions will become more profit-oriented; (2) the significance of incurring additional costs in the adjustment of the real interest rates on borrowing will be weakened, and an environment favorable to the working on the market mechanism will be created; (3) moreover, as the accomplishments of technological innovation such as the offering of information and financial control services are adopted, the diversification of services is expected to progress; (4) major banks are expected to survive, as will the majority of enterprises, but in the future their main functions are expected to offer information and to coordinate between banks, in addition to supplying funds.

(3) Diversification of the Means of Fund Raising and Management

In the background of the diversification of the means of fund raising following the liberalization of financing, as in the past financial institutions will play the central role in fund raising. But the weight of direct financing led by corporate debentures is expected to increase.

In addition, with the liberalization of foreign capital transactions, the dependence on foreign bonds and impact loans and on other foreign capital will be further increased in response to the financial situation at home and abroad.

Also, in regard to management, too, foreign currency deposits and short-term government bonds will be added to repurchase agreement transactions and certificates of deposit, and furthermore, access to overseas certificates of deposit and investment will be broadened, so diversification of the objects of free interest used in management will be promoted. Thus, flexible management and the raising of funds in response to the financial situation and the level of liquidity will become possible.

(4) Impact on Enterprise Behavior

When appropriate economic management cannot be secured as interest rates fluctuate widely following the liberalization of interest rates, and there is greater uncertainty about the future course of interest rates along with difficulty in forecasting the future business of the enterprise, there is a possibility that the fund raising of enterprises will be temporarily concentrated on short-term loans. As a result, it is possible that enterprises will shift from investment in kind, such as in production facilities, to investment in short-term high-profit financial assets. Thus it is feared that in the intermediate and long term, such liberalization will have an adverse impact on the production capacity and productivity of enterprises.

Against this, as a means of raising funds for plant and equipment investment based on a long-term outlook, some consider that this can be handled by raising additional funds through stock offerings in the capital market.

3. Impact on Policy Financing

(1) While the impact of the liberalization of financing, particularly the liberalization of interest rates, on industrial fund raising is expected, as has already been described, to be an increase in the interest costs of fund raising on the part of financial institutions, the interest rates on borrowing on the part of enterprises as a whole will not rise much in the long term. However, in medium and small enterprises with a fragile management base, in economically weak entities such as structurally depressed industries, in those fields in which the market function does not fully operate, and in those fields deemed necessary for the national economy, there is fear that a steady supply of funds in terms of both quantity and quality may not be possible. Thus, great expectations are placed on policy financing in the future, too.

(2) However, because the current policy financing is largely dependent for its financial resources on funds from the Trust Fund Bureau, especially postal savings, in the process of liberalization the costs of policy financing will rise--just as efficient management of financial institutions is imposed by the rise in deposit interest rates--unless efforts are successful in achieving efficiency and rationalization of the management of postal savings special accounts and financial investment institutions. For this reason there is a fear that the role of policy financing may not be performed.

Chapter 3. Various Problems of Fund Raising of Enterprises

As we have observed, various elements of the recent environment surrounding our industrial financing have been sharply changed. Amid such changes, several problems that should be examined in the attempt to streamline future industrial fund raising may be mentioned.

Section 1. Fund Raising in the Capital Market

Amid the changes in the environment, as we have seen, the diversification of fund raising by enterprises has made further progress due to the establishment of a behavioral pattern of fund raising which regards fund raising costs as important with the background of the relaxation of fund demand and supply since 1975.

With the progress achieved in the diversification of fund raising by enterprises, the ratio of fund raising in the capital market has risen. In the future the importance of the capital market in fund raising by enterprises is expected to be further increased.

The current condition of the fund raising market in our country, especially that of the capital market, cannot be said to adequately meet the needs of enterprises from the standpoint of industry. Thus, there are strong voices demanding the relaxation of various restrictions on and diversification of the capital market. Specifically, the following problems concerning various restrictions have been pointed out.

1. Diversification of Corporate Debenture Repayment Terms

Various terms of repayment on corporate debenture have been allowed in recent years. Currently, there are four different terms: 6 years, 7 years, 10 years, and 12 years. However, because there is a restriction on issuing intermediate and long term debenture of less than 6 years, compared with government bonds (2, 3, 4, 5, and 10 years), industry strongly feels the need to be able to issue such debentures during the high interest rate period, and many have pointed out the need for diversifying the repayment terms of debentures.

At the same time, some advance the view that in regard to fund raising by financial institutions, efforts should be made to achieve a balance in fund raising in accordance with specialized fields, based on the existence of specialized financial institutions.

Also, as to corporate debentures, some observers point to the need for diversification not only in repayment terms but also in interest payment methods through introduction of the discount bond method.

2. Regulations Limiting Issuance of Corporate Debentures

In our country the amount of corporate debenture issuance, as regulated by the Commercial Law, must be within a range equivalent to the total amount of capital and legal reserves or the amount of equity, whichever is smaller, in order to prevent excessive issuance of corporate debentures and to assure the safety of debentures. Incidentally, this regulation in the Commercial Law is said to be patterned after an example in the commercial law in Belgium, Italy and Portugal. As examples of overseas legislation, limits of issuance are also regulated only in Argentina, Turkey and Rumania.

As to the limitation of amounts as provided for in the Commercial Law, in accordance with the "Temporary Measures Law Limiting the Issuance of Corporate Debentures," only secured debentures, convertible debentures, and foreign bonds may be raised to two times the amount provided in the Commercial Law for the time being. Also, in accordance with the "Law on Exceptions to Limits of Issuance of Corporate Debentures by General Electric and General Gas Business Companies," electric companies may issue four times the amount provided for in the Commercial Law, and gas companies may issue two times that amount.

Regarding the regulation limiting the issuance of corporate debentures, flexibility has been exercised in response to the actual situation. In the near future it is expected that some enterprises will approach the upper limits of issuance, mainly electric companies. Some point out that in order to carry out smooth fund raising on the part of enterprises, the abrogation or relaxation of regulations is necessary.

On the other hand, some consider it important to provide protection to investors through the regulation limiting the issuance of corporate debentures.

3. Rules Concerning the Return of Profits From Capital Increase Issued at the Current Price

The amount raised by paid-in capital increase of listed companies in the nation has gradually been raised since hitting bottom in 1965. Especially in 1972, it reached the highest level in history by rising over 1 trillion yen. It is noteworthy that in the background was the increase in the capital increase issued at the current price. Thereafter in 1973 and 1974, the publicly subscribed capital increase temporarily declined drastically due to the dullness in stock prices during the first oil crisis. Since 1976 the publicly subsubscribed capital increase has once again assumed the keynote of increase, and the capital increase issued at the current price has occupied the central position in capital increase.

The value of stocks is to be assessed not through the face value, to begin with, but through the price formation function of the circulation market. The shifting of the center of capital increase from issuance at face value to issuance at the current price can be evaluated as a normalization in the stock market. However, in spite of the shift to issuance at the current price, in dividend policy the concept of face value issuance remains strong. Thus, in some cases this has been linked to the deterioration of investment profitability as far as stockholders are concerned. For this reason, it was deemed necessary for companies to properly return profits after issuing capital increase, and so securities companies set up their own rules.

Note: Rules Concerning the Distribution of Profit From Capital Increase Issued at the Current Price

A. Method: Profit is distributed on the basis of the dividend propensity

A1 Method: The level of dividend propensity is publicly promised and profit is distributed by strictly adhering to the publicly promised dividend propensity.

A2 Method: The level of dividend propensity is publicly promised, and at the same time a specific promise of profit distribution based on the capital increase premium is made. Profit distribution is effected by the implementation of the specific public promise and the flexible maintenance of the publicly promised dividend propensity.

B Method: Profit is distributed on the basis of the capital increase premium.

In regard to such rules, industry circles contend that the distribution of profits to the stockholders can be accomplished by bringing about a rise in stock prices through improvement of the enterprises' profits after the enterprises turn the premium share into investment. Some observers point out that

because the stocks of those enterprises whose profit conversion is inadequate will not attract public subscription for increased capital and thereby cause the prices of stocks sold in the market to drop, excessive interference in the management of enterprises in accordance with such rules is not advisable. And they point out that it is desirable to either abolish or relax the rules.

4. Consolidation and Expansion of the Over-the-Counter Market

Compared to U.S. research and development-type enterprises which can attract risk capital or venture capital with comparative ease, research and development-type enterprises in our country have difficulty in attracting such funds. For research and development-type enterprises to be able to attract venture capital efficiently, it is necessary to consolidate and expand the circulation of stocks of venture capital companies. To do this, some contend that it is necessary to try to consolidate the over-the-counter market.

The criteria for registration for selling and buying in the over-the-counter market are: a company must have more than 100 million yen in capital; it must have been established for more than 2 years; its profit dividend must be more than 5 yen per share; its net profit must be more than 20 percent of capital; and its net assets must be over 200 million yen. Some consider that the criteria are rather strict.

Measures pointed out as necessary to improve the over-the-counter market are: (1) the criteria for over-the-counter registration should be relaxed; (2) a subscription of new stocks should be allowed; and (3) increased capital issued at the current price should be approved.

In opposition to such views, others point out that such measures would lead to increased stock speculation, would not adequately protect investors, and might violate the intent of Article 191 of the Securities Transaction Law prohibiting such facilities in the market.

5. Corporate Debentures Standards

The standards currently in effect for the public subscription of industrial debentures refer to net asset amounts and qualitative standards (net-worth ration, dividend rate, and others). Because the minimum net asset amount is 600 million yen, this makes the utilization of corporate debentures by other than large enterprises virtually impossible. Some hold the view that corporate debenture issuance standards should be relaxed so as to enable middle-ranking enterprises to issue debentures through public subscription when they can demonstrate excellent profitability and financial condition.

Also, some seek the improvement of the corporate debenture issue standards because even those enterprises that adequately meet the current standards do not generally issue debentures if their stocks are not listed.

Against this, others hold the view that since unlisted enterprises do not fully disclose information about themselves, if they are allowed to issue debentures through public subscription this might create problems regarding

the protection of investors. Still others advance the view that it is very significant in terms of the diversification of sources of funds to streamline the issuance of privately subscribed debentures for such enterprises.

6. Principle of Collateral Requirement in Corporate Debentures

This will be described in Section 3, Relaxation of the Principle of Collateral Requirement.

7. Other

In addition to various restrictions on stocks and corporate debentures as mentioned above, industrial circles call for the following: (1) Some say that to facilitate the use of the capital market by enterprises, the credit rating and issuance scale of issuing enterprises should be reflected in underwriting, trust and other fees related to corporate debentures, thus lowering the costs of fund raising to some extent. In this connection, some say that as a matter of fact 6-year and 7-year debenture issues have become more costly. (2) Also, some strongly assert that fund raising via the capital market should be facilitated by simplifying and expediting the issuance procedures, and in particular, the procedures for the issuer of foreign bonds should be simplified because the foreign exchange rate seldom changes drastically in the midst of the procedures.

Section 2. Introduction of Commercial Paper

(1) Among industrial circles, mainly on the part of large enterprises, many hold the view that commercial paper should be introduced in Japan, too. Commercial paper consists of certificates issued by business corporations and finance companies, and it plays a large role as a means of raising short-term funds for large enterprises.

As to the reasons why the industrial circles call for the introduction of commercial paper, the following are pointed out: (1) from the standpoint of the effective interest rate, commercial paper may be expected to offer more favorable conditions than those offered by indirect financing; (2) compared to bank loans, commercial paper is easy to redeem; it has advantages as a mobile and flexible means of fund raising; (3) the participation of commercial paper, which is a means of direct fund raising, would accelerate the efficacy of indirect financing.

(2) On the other hand, among banking circles, some are of the opinion that whether or not a new financing method or new finance market called commercial paper should be created ought to be judged from the standpoint of the nation's finance system as a whole, and that because the introduction of commercial paper would have a very unfavorable effect on the finance system as a whole, it should not be introduced.

Among the reasons given for opposing the introduction of commercial paper are: (1) because commercial paper is unsecured, its introduction in our country, which has a system based on the principle of collateral requirement, would

create problems in the credit system, especially regarding the protection of investors; (2) because in our country the main banking system, established between banks and almost all enterprises, plays the important role of a safety valve, as was fully demonstrated during the recession following the first oil crisis, and the introduction of commercial paper would mean a complete break with our country's unique and excellent finance practice; (3) if American-style commercial paper, which has the character of a means of accommodation, were introduced in our country where the bill system is well developed, it would have an unfavorable impact on the maintenance of the bill credit in our country, where accommodation bills are avoided; (4) in the United States, where commercial paper is well developed because the single bank system (Note 1) and large loans by banks are strictly regulated, (Note 2) large enterprises with brisk fund demand cannot raise adequate funds, but in our country banks can adequately meet enterprises' demand for funds by discounting commercial bills and other means, so the introduction of commercial papers is uncalled for; furthermore, commercial paper is issued only in the United States and Canada, not in Europe.

(Note 1) In the United States, the establishment of bank branch offices is strictly limited. The establishment of interstate branches is prohibited in principle and there are 12 states which have a single office bank system (which does not allow branch offices and wherein all banking operations are concentrated in a single office).

(Note 2) The National Bank Act (enacted in 1963) stipulates the maximum loan limit as 10 percent of owned capital. New York and 16 other states have set the standard at 10 percent of owned capital, 12 states at 20 percent, and 9 other states have set various other standards.

Furthermore, with the introduction of commercial paper, the liberalization of deposit and loan interest rates would be accelerated. It is expected that this would bring about an increase in fund raising costs on the part of financial institutions, and would create problems for some medium and small enterprises in their management. Also, for the industry as a whole, it might be an advantageous means of fund raising for enterprises with the fund raising capability, but it would have no advantage for the majority of enterprises. Rather, some fear that it might become a disadvantage, as it would accelerate the liberalization of interest rates.

(3) However, against these points which are mentioned as disadvantages to the introduction of commercial paper, the following rebuttal is offered:

A. As to the point that because commercial paper is unsecured there is a great risk of default, this can be dealt with by limiting the granting bank's backup credit and the issuance of commercial paper to enterprises with excellent financial conditions, as is practiced in the United States.

B. As to the misgiving that the supportive system that the main banks have provided to enterprises might collapse, the function of the main banks

has been established by evaluating individual advantages in transactions, and it lacks persuasion as a reason to deny the issuance of commercial paper on that ground.

C. As to the point that commercial paper is unique to the United States and is not issued in Europe, and that the problem can also be dealt with adequately in our country by bank borrowing, the diversification of sources of funds for enterprises through the introduction of commercial paper itself is significant, and whether or not commercial paper should be used is a matter of judgment on the part of the enterprises concerned.

D. As to the misgiving that with the introduction of commercial paper the liberalization of interest rates might be accelerated, the desirable part of the liberalization of interest rates as a whole can be accommodated by limiting the issuance of commercial paper to those enterprises with excellent financial conditions by setting the issuing unit of commercial paper at the same level as certificates of deposit.

Section 3. Principle of Collateral Requirement

1. Background and Problems of the Principle of Collateral Requirement

(1) In our country, collateral has played an important role in maintaining credit order. Specifically, corporate debentures are generally secured. In loans, too, in accordance with the bank transaction contract, banks obtain an agreement that they call for collateral in order to maintain the integrity of the loan. Thus, the principle of collateral requirement is observed.

The principle of collateral requirement is considered to have played a significant role in that it has enabled banks to meet the requirement of sound banking vis-a-vis enterprises with a high dependence on external funds, and at the same time to supply stable funds. On the other hand, the necessity for relaxing the principle of collateral requirement has been pointed out on the grounds that the number of enterprises with excellent financial condition and profitability has increased, that the internationalization of finance has progressed, and that especially in Europe and America the principle of collateral requirement is not a general requirement. Thus, even though it is exceptional, the issuance of unsecured corporate bonds has been approved, leading to an active review of the principle of collateral requirement.

There is a strong voice among industrial circles affirming that whether collateral is required in issuing corporate debentures or in borrowing should be basically decided after comprehensively taking into consideration the asset composition, the contents of debts, and the profitability of the individual enterprise concerned, and that a uniform requirement for collateral lacks a rationale. Accordingly, there is a demand that the credibility of enterprises should be reflected fully in the issuing conditions for corporate debentures and in the loan conditions for the issuance of corporate debentures or loans.

(2) Against this, another view is that the principle of collateral requirement should continue to play an inportant role in the future as a support to a

stable fund supply and also as a check on the excessive enlargement of credit, and that discretion is necessary in shifting to a n0-collateral principle.

2. Principle of Collateral Requirement in Borrowing

As to the collateral conditions in bank borrowing, as revealed in the lending conditions of bank accounts of national banks, the ratio of secured lending (lending endorsed by physical collateral) has declined as a trend, while the ratio of guaranteed loans and unsecured loans has risen. As of March 1981, the ratio of secured loans was 38.7 percent--a considerable drop from 45.0 percent as of March 1971. On the other hand, the ratio of unsecured loans has risen every year since March 1971, when it was 31.6 percent. Also the ratio of guaranteed loans has shown an upswing, to 27.0 percent as of March 1981, compared to 23.4 percent in 1971. Next, the current conditions for borrowing on the part of enterprises show that in the case of large enterprises of good credit standing, short-term borrowing is generally unsecured in many instances, and even some long-term borrowing for operating funds is unsecured. And even in borrowing with the use of collateral, there are many cases of retained registration. Thus, in practice, operations with considerable flexibility have been carried out, but in principle, Article 4 (Note) of the Bank Transaction Contract has been applied without exception. This has resulted in Japan being classified as adopting the principle of collateral requirement in lending. In view of such prevailing conditions, some are critical of equating sound financing with collateral and the strong preference for physical collateral, and they hold that the application of the principle of collateral requirement in accordance with Article 4 of the Bank Transaction Contract should be flexible.

Note: Bank Transaction Contract of Federation of Bankers' Associations of Japan (model form):

Article 4. When sufficient reason is generated for the integrity of credit, we will offer collateral or increased collateral approved by your bank, or establish guarantors or offer additional guarantors.

On the other hand, some hold that loans requiring collateral enable enterprises to receive low-interest credit by using physical collateral, that collateral is an indispensable requirement for maintaining sound financing for enterprises in our country with generally high dependence on external funds, and that the sound management of financial institutions has eventually brought about a loan interest level for enterprises.

Also, there is a strong view that for medium and small enterprises, unsecured loans corresponding to their credit rating are desirable, but because the principle of collateral requirement also facilitates fund raising for medium and small enterprises, that in requiring collateral, the collateral function should be raised by raising collateral appraisal and by expanding the list of possible collateral, and that the unsecured and guaranteeing systems should be further expanded.

3. Principle of Collateral Requirement for Corporate Debentures

(1) Background and Review of the Principle of Collateral Requirement

The principle of collateral requirement for corporate debentures in our country was started with the movement to restore their credit after the continuous default of corporate debentures during the period from the late Taisho era to the early Showa era, and since then it has been established. The principle of collateral requirement, together with the principle of the highest preference for collateral for corporate debentures, has played the role of enhancing the trust of investors in corporate debentures.

On the other hand, in 1972 a strong move was launched to promote no collateral in the case of convertible debentures, with the result that enterprises with favorable financial conditions were able to issue unsecured convertible debentures by specifically agreeing to additional debt restriction provisions (January 1973). (note)

> (Note) However, even though unsecured, enterprises are obligated to retain a specific object, and also when the accepting bank approves, the collateral right can be established on the retained object. Thus, an unsecured corporate debenture can be changed to a secured one.

Because thereafter the number of enterprises with excellent financial condition in our country increased, there are some cases wherein no impediment to the protection of investors can be found even if the corporate debentures are unsecured. Also, while the internationalization of our economy is underway, overseas civilian enterprises show a strong desire for issuing debentures, but because there are many cases of debentures already issued with a negative pledge (provisions for limiting of collateral offering), it would be difficult to issue secured debentures in our country alone.

With this in the background, finally in March 1979 the current debenture issue standards were established based on the "Concept of Unsecured Publicly Subscribed Industrial Debentures."

(2) Unsecured Corporate Debenture Issuing Standards

However, since 1979, the number of enterprises in our country meeting the current debenture issuing standards is only 10 companies (note 1) and the number of companies issuing debentures (all convertible debentures) is only 2. (note 2) Also, the number of instances of debenture (all ordinary debentures) issuance in our country by overseas enterprises is only 4. (note 3) These instances thus reflect the strict standards

> (Note 1) The 10 companies are Toyota Motor Company, Matsushita Electric Industrial Company, Dai Nippon Printing Company, Nippon Denso Company, Shiseido, Pioneer, TDK Electronics Company, Fuji Photo Film Company, and Kyoto Ceramic Company.

(Note 2) The two companies are Matsushita Electric Industrial Company and Nissan Motor Company.

(Note 3) The four companies are Sears, Roebuck (March 1979), Dow Chemical (January 1982), NCR (April 1982), and Proctor and Gamble (July 1982).

Against this, there is a strong voice among industrial circles demanding improvement of the situation because the range for approving unsecured corporate debentures is too narrow, and in practice enterprises in our country enjoy little advantage from unsecured corporate debentures.

In the background of such a view, the following points may be made: (1) In regard to corporate debentures, investors primarily should make investments on the principle of their own responsibility. (2) The safety of corporate debentures should be judged not by the collateral value at the time of settlement but by the repayment capacity of the concern. (3) For enterprises with excellent profitability and financial conditions, unsecured corporate debentures cost less in fees because of the savings in collateral establishing fees. (4) When unsecured corporate debentures are issued overseas with a negative pledge, the issuance of debentures within Japan become difficult. (5) It is excessive that even in issuing unsecured ordinary debentures by Japanese enterprises overseas, it many instances enterprises are subject to regulations such as bank guarantees.

Also, there is strong criticism from overseas enterprises wishing to issue corporate debentures in our country stemming from the above circumstances.

On the other hand, there is a view that discretion should be exercised in relaxing the eligibility standards for issuing debentures as it is highly possible that it will have a serious impact on the credit system in our country. That is, this view contends that the principle of collateral requirement forms the main pillar in the financial order in our country, including corporate debentures as well as loans, and it should continue to play an important role in the future in securing a stable fund supply and checking excessive credit expansion; accordingly, unsecured corporate debenture issuances should be carefully dealt with by taking into consideration the extent of the penetration of the principle of the investor's own responsibility.

Section 4. Foreign Exchange and Other Financing

1. Problems Surrounding the Formula for Establishing Usance Interest Rates

Import usance enables stable fund raising for import financing. At the same time, it is a system of high utility which possesses the mechanism of shifting to domestic financing after the usance term. At present, usance interest rates are established on the basis of the B.A. rates in the United States.(note) However, some point out that these rates may not counterbalance the present rising costs of financial resources. In particular, because of the burden of importers under the high interest rate of the U.S. dollar, there is a strong voice demanding lower interest import financing.

(Note) B.A. (banker's acceptance) refers to a draft with a time limit drawn on a bank by entities that need funds for financing merchandise in transition or in custody, and the draft is accepted by a bank. Acceptance is usually performed by member banks. In particular, the balance of accepted drafts by banks in New York City covers more than 50 percent. In the United States, B.A. are mainly used for import financing. The draft presenter can raise funds by selling it to the B.A. market, in which the investors are various financial institutions, business companies, foundations, and funds. The scale of the B.A. market has now reached about the 80 billion level (the balance at the end of 1981), because the Federal Reserve Bank has attempted to nurture and strengthen it by intervening in it in order to upgrade the position of the New York financial market.

On the other hand, some are of the opinion that import usance is primarily designed for the stable supply of import financing under a variety of conditions, that efforts to raise it are being made by utilizing the B.A. market as part of institutional financing in the United States, that even under the current circumstances flexible responses are made at the window operation stage, and that given this background the current establishment of interest rates is valid.

2. Current Conditions of Avoidance of Exchange Risk and Related Problems

(1) Given the current condition that the bulk of our trading is carried out in dollars, it is extremely important for traders to hedge the exchange risk for ascertaining profits, and thus for continuing a stable trade. In regard to futures trading in the exchange by residents, the "principle of actual demand"(note) is applied in order to prevent disruption of the foreign exchange market by exchange speculation and its adverse impact on trade transactions. However, against this "principle of actual demand," there is a strong voice demanding relaxation of it based on the following: (1) in practical application flexibility is lacking and this prevents a risk hedge through mobile futures trading by enterprises (for instance, in the case of one transaction, exchange reservation may be difficult before the signing of a contract for an import-export transaction, so a good opportunity for buying and selling foreign exchange is lost); (2) because the "principle of actual demand" is not applied overseas, it is questionable how much the strict application of the "principle of actual demand" to residents in our country contributes to the stability of the foreign exchange market.

(Note) Section 1-1, Article 17 of the "Ordinance on the Control of Foreign Exchange" based on Article 21 of the "Foreign Exchange Law" stipulates the "principle of actual demand": "future foreign exchange transactions or capital transactions related to the means of foreign payment or sales contracts for bonds as carried out between nonresidents shall not be clearly for the purpose of speculation."

(2) Also, fron the standpoint of flexibility dealing with fluctuations in the foreign exchange market, there is increasing demand for the expansion of current account (note 1) quota and foreign currency settlement (note 2) between residents. Because under the current Foreign Exchange Law, the current account quota is limited to 3 million yen per case, some also point out that its usefulness is minimal. Furthermore, because the current Foreign Exchange Law prohibits foreign currency settlement between residents, some point out that manufacturers cannot on their own make exchange reservation for the purpose of hedging risk when they import or export through trading companies.

(Note 1) "The current account system between main and branch offices of trading companies" based on Article 17 of the Foreign Exchange Law and Section 1-3, Article 7 of the "Foreign Exchange Control Law" stipulates that trading companies cannot credit or debit the current account settlement of "payment for export freight exceeding an amount equivalent to 3 million yen and payment for intermediary trade freight."

(Note 2) According to Article 21 of the Foreign Exchange Law, a "transaction related to bonds that can be paid for with foreign currency between a resident and a foreign resident" is defined as a capital transaction which requires the approval of the minister of finance, while foreign currency settlement between residents is restricted.

(3) However, against such voices demanding the relaxation of regulations, others express the opinion that: (1) the relaxation of regulations may increase the fluctuations in the foreign exchange market; (2) foreign currency settlement between residents may be linked to abandonment of the sovereignty of currency, and it will shake to the foundations the system of grasping the condition of foreign transactions and of securing the confirmation of legality by concentrating foreign currency settlement in foreign exchange banks; (3) the means of hedging risk in accordance with the current Foreign Exchange Law is not simply an exchange reservation, but diverse risk hedges are possible through creativity and study; (4) in regard to the account current quota, brisk utilization within the current limit of 3 million yen is a prerequisite.

3. Request for the Creation of a New Market in Response to the Internationalization of Financing

With the weight of our economy in the world economy having increased and our economy having relatively stabilized, confidence in the Tokyo market as an internatonal finance market and of the yen as an international currency has gradually increased in recent years. Also, following the enforcement of the New Foreign Exchange Law of December 1980, foreign exchange control of capital transactions has also been liberalized.

Under these circumstances, the Tokyo finance and capital market has made steady progress as an international finance center. In order to further

internationalize it, requests have also been made for the creation of new markets such as a yen-denominated B.A. market, and a Tokyo offshore market.

(1) Yen-Denominated B.A. Market

Because (1) the postwar international currency system moved with the dollar at the center, and (2) there was close movement in the domestic fund supply and demand in our country, particularly during the high-rate growth period, trade financing tended to be sought in foreign currency. Thus, trade financing in our country was long dependent on foreign currency in the postwar period. However, in recent years: (1) with the rising economic power of our country, confidence in the yen as an international currency has increased: and (2) with the shift to stabilized economic growth, domestic financing has been relaxed, compared to the high growth rate period, and there has been more room for trade financing with the yen. Given this situation, there has been a strong demand for increasing the yen-denominated ratio in imports and exports, and for creating a yen-denominated B.A. market as a means of raising the role of the yen as a currency of international settlement.

On the other hand, others point out regarding the advocacy of creating such a B.A. market that with the increase in international trust in the yen and in yen-denominated transactions, a B.A. market can be expected to be created spontaneously, so increasing yen-denominated transactions is the priority issue. Also, since a B.A. market is a free interest market, it should be seriously examined in the overall liberalization program of our finance system.

(2) Tokyo Offshore Market

As to the creation of a Tokyo Offshore market, (note) some hold that because this would lead to expansion of the international business of financial institutions, the lowering of foreign currency fund raising costs, and the concentration of information centering on the Pacific Basin, and thus it would be advantageous not only to financial circles but also to industrial circles, the creation of such a market should be positively examined. On the other hand, others point to the fear that the creation of an offshore market (1) would stimulate exchange speculation when the yen is included in the currencies of transaction, and (2) would be a disturbing factor in the domestic finance and capital market, which includes the regulated interest rate system.

(Note) This is a finance market with privileges regarding tax systems and currency control in finance service for transactions between nonresidents (such as exemption from interest tax, from regulation of reserve deposit requirement ratio and from the application of the upper limits of deposit interests). Such markets have been established in London (the city), New York (IBF), the Bahamas, the Cayman Islands, Singapore, Hong Kong, and Bahrain.

4. Other

In addition, the following are points to be considered in foreign currency financing.

(1) In direct foreign and other investments, when government financial institutions enter into joint financing with civilian financial institutions, at present the civilian financial institutions sometimes provide liability guarantees. But since the policy financing should fulfill a complementary function for civilian risk, as seen in instances in the United States, government financial institutions should offer liability guarantees for civilian financial institutions.

(2) Government financial institutions should promote flexibility in financing conditions, the simplification of procedures, and the use of overseas assets as collateral in financing related to trade or foreign investment, and at the same time they should create a foreign currency loan system.

(3) Since our country is founded on trade, efforts should be made for the introduction of investments for transaction in trade, and for flexible operation of the import-export related semi-commercial bill discount, etc.

Section 5. Regulation of Granting Large Credits

Regulation of the granting of large credits is designed to control the concentration of the granting of bank credits to the same party, thus diffusing the risk, and to secure the safety of asset management of banks. At the same time, it expands the opportunities for all--including medium and small enterprises and individuals--to receive credit, and thus contributes to the broad and fair distribution of credit.

In our country, since the issuance of a Ministry of Finance notification in December 1974, the granting of credit has been executed with administrative guidance. And now, in accordance with the new Bank Law enacted in April this year, it is legally defined. (note) Among foreign countries, control is carried out in the United States and West Germany, while no control is exercised in Britain, France, and elsewhere.

Thus the regulation of the granting large credits is based on the demand for sound banking. But, on the other hand, it has a great impact on fund raising by enterprises. Especially since in our country the ratio of bank loans in fund raising by enterprises is large, it presents serious problems.

(Note) In accordance with Article 13 of the Bank Law, the granting of credit to the same person by a bank is controlled within 20 percent of its own capital. This control is within 30 percent of their own capital for long-term credit banks and trust banks, and within 40 percent for foreign exchange specialist banks. According to the ordinance, when circumstances beyond control exist, this control can be excluded from application, provided the minister of finance approves. The granting of credit to a certain number of electric power companies has been excluded from the application of this ordinance. Incidentally, in this control, commercial bill discount, etc., is excluded.

In particular, the electric power industry requires large sums for plant and equipment investment over a long period, and it is difficult for that industry to disperse the sources of fund raising.

Also, in the petroleum industry there is the possibility that demand for large sums will be generated due to such unpredictable factors as changes in oil prices and in the foreign exchange market. If the regulation of the granting of large credits were uniformly applied to these industries, it would probably hamper smooth fund raising for enterprises and have a serious impact on the national economy.

Section 6. Impact of Increase in Amount of Government Bonds Issued

(1) The increase in financial expenditures due to the increase in the amount of government bonds issued since 1975 was designed to play an important role in boosting the economy, as civilian demand was dull.

On the other hand, some hold that because (1) the amount of government bonds issued was at quite a high level each year; (2) the issuance of government bonds leaned toward 10-year maturity long-term bonds; (3) regarding the underwriting of government bonds by syndicates, as the distribution of government bonds did not counterbalance the fund amounts of financial institutions, pressure was intensified for the sale of government bonds held by city banks with an unfavorable fund position, and this in turn acted as a factor for change in the bond market; therefore, the high interest rate and the change in the market were caused by the increase in the amount of government bonds issued, and this has begun to have impact on the fund raising on the part of enterprises, too.

(2) Furthermore, in the future the demand for funds on the part of enterprises is expected to rise as they enter the period of equipment replacement in the intermediate and long term. For this reason, some observers point out that the rise in the interest rate or the rate remaining at a high level and changes in the finance and capital market following the increase in the amount of government bonds issued may become an impediment to the stable raising of good-quality funds on the part of enterprises.

However, against such misgivings, others point out that (1) the high level of the current long-term interest rates is thought to be caused by the high interest rates in the United States rather than by the impact of an increased amount of government bonds issued, (2) from the overall economic standpoint, given the situation of excess savings, by devising such means of absorbing government bonds as diversification of the form of bonds issued and of the means of absorbing the bonds, it is considered possible to have government bond issues designed basically to reduce their impact on the finance and capital market, and for this reason, with appropriate policy management the increase in the amount of government bonds issued will not have an adverse effect on the supply of funds for industry.

(3) Furthermore, as to the liberalization (of issue conditions) of interest est rates in case the amount of government bonds issued continues to increase, some hold that it will lead to a general rise in interest rates and will increase fund raising costs for enterprises. Against this, others point out

that because the increase in the amount of government bonds issued is bound to have an impact on the quantity and quality of industrial funds, even under the regulated interest rate system, efforts to liberalize the issuing conditions of government bonds and to diversify the forms of issuance and absorption methods will lessen the impact on industrial fund raising.

Section 7. Policy Financing

(1) As has been observed, policy financing has flexibly changed in response to the policy tasks at a given time. Regardless of whether the finance market was brisk or slow, policy financing has provided a stable fund supply. But from the latter half of 1975 to 1978, the demand for funds showed a marked decline, and the interest rates dropped. During that period, in certain quarters it was pointed out that competition occurred between policy financial institutions which supplied stable funds and civilian financing which supplied funds in response to the condition of the economy.

(2) As to the role of policy financing, some hold the view that from the standpoint of avoiding competition with civilian financial institutions and of letting the money rate mechanism function, it is desirable to expand the scope for the market principle to work and to make every effort to complement civilian financing, and that because of this the expansion of policy financing is problematic.

Among industrial circles, some hold the following opinion: (1) Generally speaking, amid the progress made in the liberalization of civilian financing, policy financing is expected to perform its role as a source of funds to those fields to which civilian financing cannot adequately respond and its role of distributing funds as deemed desirable from the viewpoint of the national economy so as to complement civilian financing, and thus the role of policy financing should be expanded both in quality and quantity. (2) Recently the gap in interest rates between policy financing and civilian financing has been considerably narrowed, and advantages accruing from the qualitative complementary function of policy financing in the area of interest rates have been weakened. Therefore, this function should be strengthened. (3) Also, beginning with the issuance of government bonds, the underwriting of governmetn bonds by the Trust Fund Bureau has increased, with the result that the necessary funds have not been adequately allocated to policy financing, so the supply of funds to those fields deemed necessary from the standpoint of policy has not been adequately implemented.

Furthermore, in a survey conducted by the Ministry of International Trade and Industry, many expressed the opinion that the scale of financing by government financial institutions should remain at the present level or be expanded, and they indicated that they expected a great deal of government financing in such fields as funds for technological development, countermeasures for resource energy and structurally depressed industries, and for medium and small enterprises.

(3) Additional problems pointed out were: (1) the procedures are complicated and time-consuming, and an effort should be made to simplify and speed

up procedures; (2) there are many instances wherein civilian financial institutions demand collateral, even from enterprises that have been granted unsecured loans, and there is little flexibility in this respect.

Chapter 4. Desirable Industrial Financing in the Future

Section 1. Basic Concepts

1. Various Types of Environment Surrounding Industry

(1) Our economy showed remarkable development through the postwar rehabilitation and high growth rate periods, and it has now come to occupy an enormous position in the world economy. However, prompted by the oil crisis on two occasions and amid the drastic changes in the world political and economic situation, the fragility of our economy, which is dependent on imports for the bulk of resources, has been manifested, while the intensified international competition and the beginning of trade friction have made the environment surrounding our economy extremely harsh.

(2) Given this situation, for our country to sustain stable economic growth over a long period and to improve the national life, it is necessary to respond competently to the tasks indicated in the vision of the international trade and industry policy during the 1980's as the "international contribution of an economic superpower," the "overcoming of the restrictions of a nation with few energy resources," and the "structuring of a society with vitality and affluence."

(3) In order to realize such goals, it is necessary to stimulate brisk business activity in enterprises in such fields as the promotion of technological development and resource energy development, the nurturing of vitality in medium and small enterprises, the promotion of internationalization in economic cooperation and other areas, the activation of the basic materials industries, and the transformation of the industrial structure. It is necessary for the government to provide active support in these areas and at the same time to reorganize the environment so as to make such business activity possible.

2. Securing the Smooth Raising of Good-Quality, Stable Funds for Industry

(1) The prospects for industrial fund demand and supply during the 1980's are, as has been stated, that fund demand on the part of enterprises will be considerably increased due to the need for investment in techological development and in equipment replacement, and at the same time, there will be a shortage of funds in the public sector. Therefore, industrial fund demand and supply as a whole will move in a comparatively narrow range.

(2) Given this situation, in order to realize brisk business activity in those fields necessary for the stable development of our economy, increased consideration must be given to securing the smooth raising of good-quality, stable funds for industry.

(3) To this end we must tackle the task of how to secure internal funds, which will become more important in the future, and at the same time we must seek a desirable means of industrial financing to secure sources of external funds.

3. Basic Concepts

(1) As to the means of industrial financing, basic emphasis must be placed on actively responding to the needs of the industrial circles that are fund users. At the same time, we need to recognize that the development of a sound and efficient finance and capital market in a large sense will form the basis for smoothly securing funds for industry.

(2) The liberalization of financing is considered as basically inevitable. To begin with, liberalization brings about initial advantages by enhancing the efficiency of the economy as a whole, in terms of industrial financing. On the other hand, there are misgivings about its disadvantages such as a possible disruption of the financial order. Therefore, it is necessary to handle liberalization with due consideration.

(3) Accordingly, in promoting liberalization it is deemed necessary to liberalize regulations other than those for interest rates in order to promote efficiency in the management of financial institutions. And at the same time it is necessary to set a gradual pace for the liberalization of interest rates in order to avoid unnecessary friction.

(4) In the process of liberalization, for enterprises to efficiently carry out fund raising, it is necessary to take advantage of the merits of indirect financing, which is expected to continue to cover the bulk of industrial fund raising in the future, and at the same time to attempt to diversify the sources of funds on the part of enterprises.

(5) At the same time, in the process of the liberalization of financing there may be some fields in which adequate fund raising will become difficult if left to the market mechanism, even though these fields are expected to increase business activity in order to achieve the above-stated policy goals. For these areas the role of policy financing to complement or encourage civilian financing would appear to be more important than ever.

Section 2. Ways of Promoting the Liberalization of Financing

(1) As we have observed, the liberalization of financing is considered inevitable. But as to the ways to promote it and its pace, consideration of policy is necessary.

That is, the liberalization of financing is expected to raise the efficiency of the economy as a whole through the strengthening of the market mechanism accompanying the promotion of competition. But depending on how liberalization is promoted, confusion may result in the current financial order. Therefore, from the standpoint of industrial circles, due consideraton must be given to policy so that the liberalization of financing is carried out gradually,

while its impact on industrial financing as a whole is monitored.

(2) It has been pointed out that the liberalization of financing will enable the efficient management and raising of funds on the part of enterprises, but at the same time, compared to the conditions under the regulated interest rate system, fund raising costs may change drastically and interest rates may vary widely due to uncertainty or speculation, depending on the financial and economic situation. In this situation, enterprise activity may lack a long-term perspective regarding equipment investment and so forth, and there may be emphasis on short-term management tactics such as improvement of the immediate financial balance, with the result that it may lead to the deterioration of the performance of our economy.

(3) In order to avoid such a situation, it is necessary first of all to further strengthen the efficiency of management of financial institutions in order to absorb as much as possible the rise in interest rates imposed on fund raising on the part of financial institutions following liberalization.

For this purpose, it is deemed necessary to relax or abolish various regulations that may impede the efficiency in the management of financial institutions so as to make possible a response to technological renovation, such as information-related technology.

Second, it is deemed necessary to rearrange the environment through such means as the consolidation of the market in order to minimize as much as possible the changes in interest rates.

(4) In the process of accomplishing these liberalization measures, it is possible that for medium and small enterprises and enterprises with a low credit rating, such as structurally depressed industries, the rise in fund raising costs will be relatively large, and their sound development and revitalization may be impeded. Also, there is fear that smooth supplying of funds to those fields in which it is difficult for the market mechanism to function and those fields deemed necessary to the national economy may be impeded. For this reason, it is necessary to give consideration to ways of avoiding the creation of impediuments to smooth fund distribution to those fields deemed necessary from the standpoing of the sound development of our economy by taking necessary steps such as the complementary use of policy finance.

(5) Also, there are misgivings that carrying out liberalization rapidly might unnecessarily escalate the friction it causes. Especially in view of the fact that a rapid and sudden reorganization of financial institutions would have a great impact not only on general depositors but also on enterprises which are borrowers, the speed of promoting liberalization must be given full consideration.

(6) In order to control the negative effects caused by the liberalization of interest rates and to allow industrial circles maximum enjoyment of the benefits of liberalization, as in the case of the United States, it is necessary to basically undertake more carefully considered financial policy for

for controlling inflation, in view of the fact that inflation abets the negative side of the liberalization of interest rates, as seen in the United States.

Section 3. Relaxation of Various Restrictions on Fund Raising in the Capital Market

It is deemed necessary for the capital market in our country to give consideration to the protection of investors, to the characteristics of our financial structure, and to the relaxation of various restrictions as listed below, and thus to proceed with the diversification of the sources of funds on the part of enterprises. At the same time, smoother fund raising for enterprises through the capital market is considered as valuable also for further accelerating the efficiency of indirect financing, which will continue to cover the bulk of the supply of funds to industry in the future.

1. Diversification in the Repayment Terms of Corporate Debentures

Since corporate debentures with only four different repayment terms (6, 7, 10 and 12 years) are issued, industrial circles need a diversification whereby the issuance of corporate debentures with less than 6 years maturity is approved. This schould be examined by those concerned after a review of its impact on intermediate- and long-term debentures.

The diversification of repayment terms can be evaluated highly because it would not only be advantageous to the issuing companies, but it would also contribute to the diversification of objects of asset management on the part of investors and would be linked to expansion of the corporate debenture market.

Nevertheless, it should be taken into account that in promoting the diversification of the repayment terms of corporate debentures by making the repayment term shorter, the fees for corporate debentures would be corresponding by increased, and in practice this makes diversification more difficult.

2. Abrogation of Regulations Limiting the Issuance of Corporate Debentures

In regard to the regulations limiting the issuance of corporate debentures, together with the substantive implementation of the screening function and so forth by the rating agencies and underwriting companies, the relaxation or abrogation of the regulations id desirable so as to reflect more fully the actual conditions of enterprises, as the principle of investors' own responsibility is established. But after comparison with the legal systems in each country, further examination of the regulations by those concerned is expected.

3. Flexibility in Rules on the Distribution of Profits from Capital Increase Issued at the Market Price

How and how much of profits from the capital increase issued at the market price there should be is primarily to be decided in accordance with the market principle. From this standpoint, it is not judged desirable to obligate

enterprises across the board to a fixed rate of return based on a certain formula. Furthermore, since it is anticipated that in the future the issuance of non-par stocks will be increased and the perception of the dividend rate over the face value will be weakened, the need for the rules is expected to become less.

On the other hand, if we take into consideration that the actual records of the profits from capital increase issued at the market price has not always been satisfactory, from the standpoint of sound development of the market, there is inevitably a need to establish some rules on the return of profits.

However, since it is considered desirable to make the rules for the return of profits flexible depending on the development stage, kind and types of business, while recognizing the significance of the rules, it is necessary for those concerned to examine the rules.

4. Consolidation and Expansion of Over-the-Counter Stock Market

In order to advance the creative knowledge intensification of the industrial structure in our country, it is important that new venture businesses and other enterprises actively participate in and develop the market. The activity of enterprises such as venture businesses shows future prospects and the possibility of growth, but on the other hand, it contains risks as well. Therefore, it is desirable that venture capital, which is risk money, be smoothly supplied.

For this, it is deemed necessary to expand the over-the-counter market so as to make public subscriptions possible and to create a system for increasing the supply of venture funds.

5. Relaxation of Eligibility Standards for Issuing Corporate Debentures

It is expected that the relaxation of the current eligibility standards for issuing corporate debentures will be reviewed so as to enable middle ranking enterprises with excellent financial conditions to publicly offer debentures. At present, even if the enterprise can meet the eligibility standards, if it is unlisted it cannot actually issue debentures publicly. It would seem to be desirable to make an improvement so as to enable such an enterprise to issue debentures by public subscription by taking the necessary steps for the protection of investors such as continuous disclosure of the management of the enterprise concerned.

6. Principle of Collateral Requirement in Issuing Corporate Debentures

This will be described later, in Section 5, Relaxation of the Principle of Collateral Requirement.

7. Other

It is expected of the concerned quarters that in addition to studying the above restrictions on stocks and debentures, they will examine ways to improve

various fees related to stocks and debentures and ways to simplify and expedite procedures for issuing stocks and debentures in order to deal with the increase in changes in interest rates and exchange.

Section 4. Introduction of Commercial Paper

(1) It is deemed to be important for enterprises with good credit ratings to introduce commercial paper, because for enterprises in our country to issue commercial paper means (1) a reduction in the fund raising costs of enterprises can be expected through the use of short-term funds called commercial paper in place of bank loans; (2) compared to bank loans, issuing and repaying commercial paper is easy, and commercial paper is advantageous as a means of mobile and flexible fund raising; (3) the efficacy of indirect financing will be promoted; (4) it will contribute to the diversification of objects of management for investors.

(2) However, because the introduction of commercial paper is a problem that touches upon the basic elements of the finance system in our country, which has attempted to maintain a system of credit order, further examination by all quarters concerned is expected after the needs of industrial circles are reviewed.

Section 5. Relaxation of the Principle of Collateral Requirement

1. Principle of Collateral Requirement in Corporate Debentures

(1) Relaxation of Eligibility Standards for Issuing Unsecured Corporate Debentures

A. In order to facilitate the smooth development of the corporate debenture market, it is essential that the market be a place of efficient and profitable assets management and fund raising, and also a place of safe assets management. The credibility of corporate debentures can be maintained by the rating of rating agencies and the screening function of underwriting companies, but it is believed that in our country, maintaining credit has been facilitated by the principle of collateral requirement and the principle of top preference for collateral in corporate debentures. The general perception that corporate debentures are safe has become widespread in our country, and this has led to the expansion and development of the corporate debenture market. And the eligibility standards have contributed to this.

On the other hand, in recent years in our country the number of enterprises with high profitability and excellent financial condition has increased. The application of the principle of collateral requirement uniformly to corporate deb entures issued by such enterprises has acted as a factor for increasing the fund raising costs of these enterprises. Also, with the internationalization of the economy, the request from overseas civilian enterprises to issue debentures in our country has gradually intensified, but it must be recognized that it is difficult in practice for these enterprises to issue secured debentures in our country.

Also, many enterprises have pointed out that one of the reasons the issuance of unsecured corporate debentures overseas has increased is that the eligibility standards for issuing unsecured debentures in Japan are too strict. Therefore, it is believed that strict eligibility standards may result in narrowing the domestic market.

B. From the standpoint of the fair distribution of funds, it is desirable to have the issuing conditions for corporate debentures decided by the principles of the market.

On the other hand, it is also important for the expansion of the corporate debenture market to try to protect investors. It should be recalled that in our country, in particular, the principle of investors' own responsibility has not been fully established. Accordingly, it is necessary to enable enterprises with excellent financial condition to issue unsecured corporate debentures by relaxing the current standards, while attempting to maintain the harmony of the domestic credit order for the time being. Furthermore, in this case issuing enterprises should fully recognize the special exception to the provisions for additional debt restriction for the protection of investors.

Because convertible corporate debentures have the characteristics of being latent stocks, some hold the view that treating convertible corporate debentures equally with ordinary corporate debentures is not necessarily appropriate. This must be taken into consideration in relaxing the standards, as well as the criticism that the issuance of corporate debentures in our country by overseas civilian enterprises is in fact extremely difficult.

(2) Establishment of the Principle of Investors' Own Responsibility

It is desirable to leave the decision on whether corporate debentures should be secured basically to the judgment of the market. For this purpose it is hoped for that the awareness of investors will be nurtured, that several authoritative rating agencies will be established (note) and that the foundation for establishing the principle of investors' own responsibility will be formed by improving the screening capability of underwriters and by disseminating various kinds of investment information.

> (Note) In our country the rating is performed by the Japan Public and Corporate Bonds Research Institute. In the United States, the Moody Company, Standard and Poor, and others have already been accepted generally as authoritative rating agencies.

2. Principle of Collateral Requirement in Borrowing

As distinct from the case of corporate debentures, whether borrowing should be secured or unsecured should be decided by bilateral dealings between enterprises and banks. Individual banks should each independently screen and make a judgment on whether any impediment exists to fulfilling the requirement for sound banking. Then they can make unsecured loans. Because even now flexible handling is provided commensurate with the credit rating of the enterprise

concerned, it is expected that such a trend will be further reinforced in the future.

Furthermore, because collateral has an aspect of contributing to smooth fund raising for medium and small enterprises,(note 1) due consideration should be given to fairness in the appraisal of collateral, to the expansion of objects for use as collateral, and to activation of the mortgage certificate system. (note 2)

(Note 1) According to the report issued (in March 1982) by the "Study Group for the Problems of Collateral for Medium and Small Enterprises," a private advisory council for the director of the Small and Medium Enterprise Agency, it has been proposed that appropriate changes should be made in collateral appraisal, that the mortgage certificate system should be activated, and that leaseholds should be permitted as collateral.

(Note 2) The mortgage certificate is a certificate issued mainly for long-term real estate security in accordance with the Mortgage Certificate Law.

Section 6. Desirable Foreign Exchange Financing

1. Formula for Establishing Issuance Interest Rates

The system of import issuance interest rates should be reexamined in import financing as a whole after taking into consideration that (1) following the revision of the Foreign Exchange Law of 1980, the introduction of overseas capital has been liberalized as a principle, and ways for raising foreign funds have been diversified; and (2) because the scope of trade financing using the yen has been expanded, the diversification of financial resources has become possible.

2. Relaxation of the Principle of Actual Demand

The significance of the principle of actual demand is fully appreciated from the viewpoint of preventing exchange speculation and stabilizing the foreign exchange market. On the other hand, if flexibility is lacking in management, it cannot be denied that flexible exchange risk hedging on the part of enterprises is obstructed. For this reason it is necessary to examine the pros and cons of the relaxation of this regulation.

3. Examination of the Creation of a New Market in Response to the Internationalization of Financing

Because the weight of our economy in the world economy has increased and expanded, the internationalization of our economy has made progress, and confidence in the yen throughout the world has been raised, a further internationalization of the Tokyo finance and capital market is considered inevitable. Also, such internationalization of finance is believed to be basically favorable

to the industrial world as well. However, because disadvantages have also been pointed out regarding the creation of such markets as the yen-denominated bankers acceptance market and the Tokyo offshore market, it is desirable to examine the question further with a view to dealing with such problems.

4. In addition, a separate forum should be set up for the examination: it would take a broad look at: the trends in international finance; desirable ways to handle trade financing, which has scant relations with the industrial world; the stabilization of the exchange market; and countermeasures for exchange risk hedging. Such an examination should be started immediately.

Section 7. Regulation of Granting Large Credits

In the application of the regulation of granting large credits, adequate consideration should be given to the stable securing of funds by enterprises.

In the new Bank Law, electric power is excluded from the application of the regulation of granting large credits with the approval of the minister of finance. In other cases, too, when an unforeseen situation arises, the application of the regulation of the granting of large credits can be exempted with the approval of the minister of finance.

So far problems in fund raising due to the regulation of granting large credits have not been manifested. But if a discrepancy should occur in the future between the growth in the demand for funds on the part of enterprises and the growth of financial institutions' own capital, which is the basis for the regulation of the granting of large credits, it is feared that problems might arise depending on how it is managed.

For this reason, a flexible and prompt response is desirable after a request is reviewed from the standpoint of industrial policy in the management of these regulations, so as to facilitate the smooth and flexible raising of funds by enterprises.

Also, more basically, it is necessary to enhance the diversification of sources of funds for enterprises and to broadly open up ways for enterprises to raise funds by consolidating the capital market.

Section 8. Desirable Way To Issue Government Bonds

As to the proper amount of government bonds to be issued, it is difficult to uniformly regulate the level because that is related to the condition of our economy and to the way the economy is managed.

Furthermore, during a period when enterprises' demand for funds for equipment increases due to the need for investment to replace large items of equipment, in the medium- and long-term perspective the unfolding of an appropriate policy regarding the amount of government bond issues and their management is desirable so as not to allow government bond issues to cause a disturbance in the finance and capital market or an impediment to the raising of industrial funds in respect to quantity and quality.

Section 9. Desirable Policy Financing

1. Role of Policy Financing

(1) Our economy, needless to say, adopts the free economic system. In this kind of economic society it is a basic principle to actively use the market mechanism, and the free and creative activity of the civilian sector should be its foundation.

(2) However, in industries characterized by large risk; poor credibility; long maturing periods of investment; strong advance investment nature; strong public interest; and prolonged investment recovery such as resource and energy development, urban and regional development, and in the conversion and revitalization of structurally depressed industries, the supply of funds only from civilian financing through the market mechanism alone is not sufficient either in quantity or in quality, although such funding is necessary from the viewpoint of the national economy.

In such cases, policy financing exists so as to complement and encourage civilian financing for the fair distribution of funds from the viewpoint of the national economy.

That is, the role expected to be played by policy financing is believed to be as described below. Furthermore, it is believed that such functions will become increasing essential when the relaxation of various kinds of friction is necessary due to sudden changes in the business cycle and shifts in the industrial structure.

A. Risk Complementing Function

This refers to the function of complementing risk by supplying risk money and by making the repayment terms flexible in accordance with the results of business in fields with high technological and market risk.

B. Credit Complementing Function

This refers to the functon of complementing the lack of credit such as that caused by the fragility of enterprises for the benefit of medium and small enterprises, technological development, industrial adjustment, and the nurturing of research and development-type enterprises.

C. Profit Complementing Function

This refers to the function of complementing the profits of enterprises that are necessary for the national economy but have low profitability by supplying low interest funds in order to achieve policy goals.

D. Term Complementing Function

This refers to the function of supplying funds that cannot be met by civilian financing because of the long investment recovery period and maturity period, such as in resource energy development.

E. Quantitatively Stable Supply Complementing Function

This refers to the function of quantitatively complementing the stable supplying of funds without being influenced by the tightness or ease of securing short-term funds in specific fields for the realization of policy goals (such as energy investment, industrial adjustment, and medium and small enterprises).

F. Policy Inducement Function

This refers to the function of encouraging civilian financing and, by supplying funds, inducing civilian enterprises to engage in fields that need to be promoted from a policy standpoint, together with the risk complementing, credit complementing, and profit complementing functions.

(3) Also, to achieve policy goals, there are other means available such as direct operation of businesses by the government or public corporations, subsidies, and tax systems. But compared to these means, (1) policy financing results in little government interference in civilian activity, and civilian independence and creativity can be maintained; (2) policy financing can handle changes in policy tasks with mobility and flexibility, and it has the excellent feature of high efficiency in subsidizing costs. Given the current condition that financial reconstruction in particular has become an urgent task, the position of policy financing designed to facilitate the realization of policy goals as a tool of policy will become more and more important in the future, while maintaining civilian vitality.

(4) Especially when interest rates are liberalized, it is expected that in the relations between financial institutions and enterprises, profits will be emphasized. Because a long-term, stable supply of funds may not be sufficiently available to fields which are necessary from the standpoint of industrial policy due to the turbulent rise and fall of interest rates, the role of policy financing in such fields is enormous.

2. Desirable Means of Policy Financing for the Future

(1) In order to fulfill policy tasks which are related to industrial policy in the future, such as the overcoming of limits on resource energy, it is necessary to fully scrutinize the need for funds in each case and to properly and strictly manage policy financing. At the same time, after reviewing the new requirements of the time it is also necessary to create or abolish systems in response to the level of fulfillment of policies and changes in civilian financing, to facilitate the flexible change and review of functions, and to competently utilize various functions of policy financing suitable to its goals.

(2) If interest rates are liberalized, it is anticipated that a large part of the funds led by the postal savings system that cover the bulk of the current policy financing will be influenced by liberalization.

Accordingly, it is deemed necessary to mitigate as much as possible the impact of higher costs caused by the liberalization of interest rates by dealing with it through the efficient and rational management of the postal savings special account and financial investment agencies.

(3) Also, if the underwriting of government bonds by the Trust Fund Bureau is expanded, it is possible that the current policy financing, which is heavily dependent on postal savings, might have difficulty in fully meeting quantitatively the need for industrial funds. Therefore, it is deemed necessary to endeavor to achieve a more efficient use of funds, and to examine the means of fund raising for policy financing, while taking into account the quality of the funds secured.

(4) Furthermore, in order to perform the role expected of policy financing in the future, it is necessary to examine not only simple loans, but also investment depending on the nature of the business, the repayment of loans that are successful, and other arrangements.

(5) In the implementation of policy financing, the following points must be kept in mind:

A. The market mechanism should be utilized as much as possible. Also, as the means of fulfilling policy goals, ideally the market mechanism should be utilized as much as possible. Therefore, in policy financing, too, civilian financial institutions should be utilized as much as possible.

B. Cooperation with civilian financing should be implemented, and competition with civilian financing should be avoided. Policy financing is supposed to complement and encourage civilian financing when the latter cannot fully meet the need based on the market principle or cannot operate smoothly. Therefore, it is essential to maintain cooperation and harmony with civilian financing and to avoid competition with it.

C. Efforts should be made to achieve efficiency. It is necessary to select the means that can fulfill the desired policy goals with the necessary minimum cost. It is also necessary to reevaluate the current significance of policy financing to date, to review the objects of loans and to set a priority among loans. At the same time, it is imperative to achieve efficiency and rationalization in management, including the simplification of clerical procedures of policy financial institutions.

D. Neutrality and fairness should be maintained. Although objects of loans are selected from the viewpoint of conformity with policy, as long as the projects concerned agree with policy tasks, of course it is necessary to maintain neutrality and fairness in management.

E. There should flexibility. Policy financing should be flexible in order to properly and promptly respond to the new policy needs of the time, and thus to be pioneering.

Concluding Remarks

For about a year, since last October, as deemed necessary we have searched for desirable industrial financing in response to the new era, including overseas surveys.

Speaking candidly, because the subjects under discussion are diverse and they are entwined with various existing systems in a complex way, it has been extremely difficult to hold discussions on all related fields. We have to admit that thus a considerable number of points have not been fully discussed and have been left untouched.

However, within the limited timeframe, we believe we have indicated directions in matters deemed essential to securing a smooth investigation of good-quality, stable industrial financing which will become the foundation for the realization of industries that can respond to the tasks of the national economy in the 1980's in our country. We expect that using this report as an impetus, those concerned will make meticulous preparations to assure desirable industrial financing, centered on various recommendations in this report, and achieve steady progress toward their goal.

History of Deliberations, Subcommittee on the Problems of Industrial Finance, General Division Committee, Council on Industrial Structure

First Meeting (27 October 1981)

(1) Organization of the Subcommittee on the Problems of Industrial Finance

(2) On the Liberalization of Interest Rates, the Consolidation of the Capital Market, and Desirable Policy Finance

Second Meeting (11 December 1981)

On the Liberalization of Interest Rates, the Consolidation of the Capital Market, and Desirable Policy Finance (Industrial Circles)

Third Meeting (27 January 1982)

On the Liberalization of Interest Rates, the Consolidation of the Capital Market, and Desirable Policy Finance (Financial and Securities Circles)

Fourth Meeting (26 March 1982)

(1) On Financial Situation and Trends in Europe and America (Report from the Industrial Finance Survey Group)

(2) On the Consolidation of the Major Points of Discussion

(3) On the Schedule for Forthcoming Examinations

Fifth Meeting (19 April 1982)

(1) On the Characteristics of Industrial Finance in Our Country

(2) On the Internationalization of Finance

Sixth Meeting (7 June 1982)

On the results of the Hearing for Industrial Circles on Industrial Finance and Outlines of Views

Seventh Meeting (9 July 1982)

(1) On the Consolidation of the Major Points of Discussion on Desirable Industrial Finance

(2) On Outlines of the Results of the Survey Statistics on Industrial Finance

Eighth Meeting (9 September 1982)

On the "Desirable Means of Industrial Finance in the Future" (Draft)

Ninth Meeting (29 September 1982)

Approval of the "Desirable Means of Industrial Finance in the Future"

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